Postal Regulatory Commission
Submitted 2/15/2013 4:16:29 PM
Filing ID: 86515
Accepted 2/15/2013

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

ANNUAL COMPLIANCE REVIEW, 2012	Docket No. ACR2012

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE
(February 15, 2013)

In Order No. 1609, the Postal Regulatory Commission solicited comments on the United States Postal Service's Annual Compliance Report (ACR) for Fiscal Year 2012.[1] On February 1, 2013, the Public Representative and seven private parties filed comments.[2] The Postal Service hereby submits its reply comments.

I. Scope of ACR Proceeding

As in past ACR dockets, it has become necessary to reiterate the scope of the instant proceeding under the Postal Accountability and Enhancement Act (PAEA). Section 3653 of title 39 directs the Commission to do four things in this docket, two of which relate to compliance and two of which do not. As to compliance, the Commission is charged with determining: (1) whether any rates or fees in effect during the preceding year were not in compliance with chapter 36 and its accompanying regulations; and (2)

[1] Order No. 1609, Notice of Postal Service's Filing of Annual Compliance Report and Request for Public Comments, Docket No. ACR2012 (Jan. 2, 2013); United States Postal Service FY 2012 Annual Compliance Report, Docket No. ACR2012 (Dec. 28, 2012) ("ACR").

[2] Public Representative Comments, Docket No. ACR2012 (Feb. 1, 2013) ("PR Comments"); Initial Comments of the American Catalog Mailers Association, Docket No. ACR2012 (Feb. 1, 2013) ("ACMA Comments"); Comments of Alliance of Nonprofit Mailers, Docket No. ACR2012 (Feb. 1, 2013, *resubmitted* Feb. 4. 2013) ("ANM Comments"); Comments of the Direct Marketing Association Responding to Commission Order No. 1609, Docket No. ACR2012 (Feb. 1, 2013); Comment of the Greeting Card Association, Docket No. ACR2012 (Feb. 1, 2013); Comments of the National Postal Policy Council, Docket No. ACR2012 (Feb. 1, 2013); Comments of Pitney Bowes Inc., Docket No. ACR2012 (Feb. 1, 2013) ("Pitney Bowes Comments"); Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. Initial Comments on the United States Postal Service FY 2012 Annual Compliance Report, Docket No. ACR2012 (Feb. 1, 2013) ("Valpak Comments").

whether any service standards in effect during the preceding year were not met.[3] Separate from these compliance determinations, the Commission: (3) is directed to review whether the Postal Service has met its performance goals; and (4) may advise the Postal Service as to the protection or promotion of the public policy objectives of title 39.[4]

While fewer comments fall outside the scope of the ACR this year than in years past, the tendency remains. Most notable is the Association of Nonprofit Mailers' attempt to relitigate the workshare discounts approved in Docket No. R2013-1, discussed in Section III below. Similarly, Pitney Bowes again challenges passthroughs that are below 100 percent;[5] not only does this fall outside the scope of the ACR, the notion that passthroughs cannot be below 100 percent contradicts the PAEA, as the Commission has recognized.[6]

The inclination to expand the scope of the ACR is also reflected in the Commission's inquiries. For example, the Commission has requested in this docket: daily Management Operating Data System (MODS) volumes and workhours by plant, operation, and tour; a copy of the latest MODS M-32 handbook; and a database listing every Periodicals publication. The connection of these items to the four statutory functions set forth in section 3653 is not apparent. Indeed, the Periodicals database did

[3] 39 U.S.C. § 3653(b).
[4] 39 U.S.C. § 3653(d).
[5] Pitney Bowes Comments, at 5, 8-9. According to Pitney Bowes, a passthrough that is below 100 percent is not only against the PAEA but also "reduces social welfare." *Id.* at 5.
[6] In Docket No. RM2007-1, the Commission responded to Pitney Bowes' advocacy of a floor on workshare discounts, premised on efficient component pricing, by stating that, "[t]he Commission strongly believes that efficient component pricing should be used as a guiding principle in establishing and maintaining workshare discounts… Nonetheless, the Commission recognizes that other factors must also be considered, and that the PAEA grants the Postal Service substantial flexibility in setting rates." Order No. 26, Docket No. RM2007-1 (Aug. 15, 2007), at ¶ 2043. Prohibiting passthroughs below 100 percent would curtail that flexibility.

not even exist; the Postal Service had to create it in response to the Commission's request. If the Commission is interested in this information, it would be preferable for it to request it in more relevant dockets, as such requests tax the Postal Service's ability to provide information that is relevant to this docket within the limited time available.

Related to the issue of scope is the tendency to treat the ACR as a stage for the airing of regulatory wish lists. While this practice has abated this year among most commenters, it has only increased in the Public Representative's comments. The Public Representative requests, among other things: (1) monthly working capital estimates; (2) comprehensive plans for providing service through any potential cash shortage; (3) forecasts of the cost avoidances associated with workshare discounts in every price adjustment filing; (4) a leased facilities report (even though such a report is already available on the Postal Service's website), with additional data fields determined by the Public Representative; (5) changes to the Postal Service's employee and customer surveys, dictated by the Public Representative, even where such changes would make the surveys more costly and potentially unworkable; and (6) reams of new data (such as for the Postal Service's employee survey), and further disaggregated versions of data that the Postal Service has already provided (such as for post office closings and suspensions, village post offices, wait times in line, and collection boxes).[7]

[7] With regard to the sixth item in this list, the Public Representative complains that "the Postal Service has not provided reliable, or sufficiently disaggregated, data for the Commission and other parties to determine whether it is providing timely and reliable access to Postal Service facilities." PR Comments, at 65. This statement is absurd. In this docket, the Postal Service has provided, among many other things: the name, location, and date of closure of every post office closed in the past year; the name, location, date of suspension, and current status of every post office suspended in the past year; the name and location of every community post office and contract postal unit; the name, location, and start date of every village post office; and the *entire* Collection Point Management System. It cannot be possible to conclude that, despite the availability of all of this data, parties are still left so in the dark that no determination can be made as to whether the Postal Service is providing timely and reliable access.

These recommendations would seem to emanate from an imaginary world of costless regulation. New regulations should be justified against costs at any time, but particularly so now, when the Postal Service can ill afford new burdens on its limited resources. Furthermore, the Public Representative's recommendations imply that the Commission should usurp the role of postal management.

Finally, what the Public Representative recommends promotes a procedural end run around the proper notice-and-comment process for issuing new rules. If the Commission solicits, through information requests, more and more materials that are not set forth in its regulations, it effectively will create de facto reporting rules that should instead be promulgated through the notice-and-comment process, where all relevant considerations can be taken into account.

II. Market Dominant Cost Coverages

A. Periodicals

Commenters focused on the cost coverages of Periodicals and Standard Mail Flats. As reported in the ACR, the cost coverage of Periodicals fell to 72.1 percent in FY 2012.[8] Valpak urges the Commission to finally determine what its remedial powers are under title 39 and act accordingly, as repeatedly deferring the issue until 2016 would be irresponsible.[9] The Postal Service concurs, but takes exception to Valpak's criticism of the Postal Service for not advising the Commission to do so in the ACR. The Postal Service has twice asked the Commission to determine what its remedial powers are,

[8] ACR, at 26.
[9] Valpak Comments, at 129-134.

and twice the Commission has declined to do so.[10] At this point, the issue is obvious, and hardly needs pointing out.

The Public Representative implies that the Postal Service has not done enough to make the processing of Periodicals more efficient. While the Public Representative acknowledges the numerous actions that the Postal Service has taken, he asserts that these actions were intended primarily for Standard Mail Flats and questions their effects on Periodicals. Both Standard Mail Flats and Periodicals mail pieces are flat-shaped; they are processed on the same machinery; it is only natural that improving the efficiency of their handling would involve many of the same steps. Oddly, the Public Representative also criticizes the Postal Service for not quantifying the cost savings that have accrued from the efficiency measures. As the Public Representative well knows, it is impossible to isolate the cost-saving effects of a single efficiency measure when there are so many variables at play in flats processing.

B. Standard Mail Flats

The American Catalog Mailers Association (ACMA), the Public Representative, and Valpak offer comments on library reference USPS-FY12-43, *Scenario Analysis for Standard Mail Contribution*,[11] submitted by Christensen Associates (Christensen Models).[12] The Public Representative and Valpak primarily criticize several of the Christensen Models' assumptions and discuss alternative price paths that they claim "maximize" or improve overall contribution. Additionally, Valpak criticizes the Postal Service for its alleged noncompliance with the Commission's FY 2010 Annual

[10] FY 2010 Annual Compliance Report, Docket No. ACR2010 (Dec. 29, 2010), at 7-8; Reply Comments of the United States Postal Service, Docket No. ACR2011 (Feb. 17, 2012), at 7.
[11] USPS-FY12-43 *Christensen Associates Scenario Analysis for Standard Mail Contribution*, Docket No. ACR2012 (Dec. 28, 2012) ("Christensen Scenario Analysis").
[12] Valpak Comments, at 59-80; Public Representative Comments, at 30-39; ACMA Comments, at 18-21.

Compliance Determination (ACD) order, including the inadequacy of the three-year schedule of Flats price increases presented in the present docket.[13] The ACMA comments focus on several factors that ACMA believes are likely to make the risk of contribution loss from above-average price increases for Flats greater than indicated by the Christensen Models.[14] The Postal Service focuses its reply herein on the issues raised by the Public Representative and Valpak.

In short, the Postal Service does not believe that the criticisms or alternative pricing scenarios offered by the Public Representative and Valpak meaningfully undercut the Postal Service's arguments against mechanically raising Standard Mail Flats prices above the cap. Indeed, as discussed below, the alternative pricing proposals presented by the Public Representative and Valpak largely accept the notion that some degree of contribution risk is created by raising Flats prices too quickly in the near-term. Accordingly, the Postal Service urges the Commission to leave its FY 2010 ACD order unchanged, and to allow the Postal Service to proceed with its proposed three-year schedule of above-average price increases.

1. Valpak mischaracterizes the requirements of the Commission's FY 2010 ACD Order concerning Standard Mail Flats.

In its comments, Valpak claims that the three-year schedule of above-average price increases for Flats is "insufficient" and that the schedule represents a "transparent ruse to avoid compliance with a Commission remedial order."[15] In support, Valpak states that that the FY 2010 ACD Order specifically "asked the Postal Service to make projections 'until the unit revenue of the Flats product exceeds its unit attributable

[13] Valpak Comments, at 38-59.
[14] ACMA Comments, at 19-21.
[15] Valpak Comments, at 47, 56.

cost.'"[16] Valpak takes the quoted statement out of context. The full statement reads:

> Within 90 days of the issuance of the FY 2010 ACD, the Postal Service shall present a schedule of future above-CPI price increases for Standard Mail Flats. This schedule shall be updated with each subsequent Market Dominant Price Adjustment and ACR until the revenue of the Flats product exceeds its attributable cost.[17]

As shown in the full statement, rather than requiring the Postal Service to produce a schedule that *continues* until Flats revenues exceed costs, the Commission only directed the Postal Service to *update* its schedule (of unspecified length) until Flats revenues exceed costs. Accordingly, the Postal Service has complied with the order. While Valpak may be dissatisfied with the Postal Service's schedule, this does not provide a basis for challenging its legal sufficiency.

2. The Public Representative and Valpak implicitly acknowledge the contribution risk presented in the Christensen Models.

Though the Public Representative and Valpak criticize some of the Christensen Models' results and assumptions, the Postal Service is heartened by their acknowledgment of the improvements the Christensen Models make over the contribution analysis submitted in Docket No. R2013-1.[18] Further, in an apparent recognition of the contribution risk associated with raising Standard Mail Flats prices too fast, both the Public Representative and Valpak take major steps back from their previously hard line positions. Rather than dismissing the Postal Service's arguments

[16] *Id*. at 48.
[17] FY 2010 Annual Compliance Determination, Docket No. ACR2010 (Mar. 29, 2011), at 107.
[18] *See* Valpak Comments, at 62 ("[t]he models submitted by Christensen Associates in this docket admittedly contain some improvements over similar models filed by the Postal Service in its Reply Comments in Docket No. R2013-1…"); PR Comments, at 37 ("[m]odels developed by Christensen Associates incorporate current declining volume trends for Standard Flats as well as price elasticities and cost variability, which illustrate the significant advantage of the models in comparison with those previously filed by the Postal Service in Docket No. R2013-1").

as “myth,”[19] or asserting that larger Flats price increases would always yield better results,[20] the Public Representative and Valpak now present alternative pricing scenarios that merely change some of the Christensen Models’ inputs to achieve somewhat greater contributions.

Significantly, the alternative price scenarios presented by the Public Representative and Valpak accept that the contribution associated with a given price scenario is sensitive to whether the autonomous Flats volume trend diverges from All Other Standard Mail.[21] To be sure, the Public Representative specifically acknowledges that the divergent volume trends in the “a” and “b” scenarios of the Christensen Models “better reflect current trends” than the common trend of the “c” scenario.[22] Additionally, the commenters’ price scenarios appear to accept the contribution risk associated with increasing Flats prices by too much in the near term. When compared to their more extreme proposals in Docket No. R2013-1, the Public Representative and Valpak’s new price scenarios present noticeably moderated price increases for Flats in the near term. For example, Valpak’s “Scenario 3” price path (which it claims to be optimal) posits a “Year 1” price increase that is seven percentage points lower than the 13.3 percent price increase it proposed in Docket No. R2013-1.[23] Similarly, though the Public Representative pricing scenarios incorporate above-average price increases, those

[19] Public Representative Comments on United States Postal Service Response to Order No. 1541, Docket No. R2013-1 (Dec. 4, 2012), at 6.
[20] Valpak Direct Marketing Systems, Inc. and Valpak Dealers’ Association, Inc. Comments on the United States Postal Service Notice of Market-Dominant Price Adjustment, Docket No. R2013-1 (Nov. 1, 2012), at 28 (“[i]n all events, the Postal Service is better off financially as a result of larger increases in Standard Flats prices, totally contrary to Postal Service assertions.”).
[21] PR Comments, at 34; Valpak Comments, at 76.
[22] PR Comments, at 34.
[23] Valpak Comments, at 69 (Table IV-1).

increases are spread over a “longer period of time.”[24]

In short, though the Public Representative and Valpak criticize certain elements of the Christensen Models, they have ceded a significant part of the argument. Rather than attempt to disprove the existence of a contribution risk associated with increasing Flats prices too quickly, the Public Representative and Valpak merely use the Christensen Models as a starting point for producing pricing scenarios that generate larger contributions. However, as discussed below, such scenarios are highly dependent on questionable assumptions. Moreover, as Christensen Associates states on page two of its analysis, its models were designed to demonstrate the contribution risk associated with above-average pricing for Standard Mail Flats, not to produce optimal long-range prices.[25]

3. The alternative pricing scenarios presented by the Public Representative do not meaningfully improve upon the Christensen Models.

The Public Representative’s alternative demand assumptions purport to improve contribution by $167 million (in FY 2012 dollars) by using “more realistic” elasticity assumptions and a more moderate Flats price-increase schedule than in Christensen’s “V2b” model.[26] However, in a height of irony, the Public Representative’s seemingly favorable results are highly dependent on his largely unsupported elasticity assumptions, even though the Public Representative leveled the very same criticism against the Postal Service.[27]

In particular, the Public Representative generates his supposedly more realistic

---

[24] PR Comments, at 37.
[25] Christensen Scenario Analysis, at 2 (“[i]t should perhaps be emphasized that these are not models of optimal pricing paths”).
[26] PR Comments, at 39.
[27] *Id*. at 37.

elasticities by inappropriately extrapolating from recent changes in the measured elasticity for Commercial Standard Mail Regular.[28] Using these recent changes, the Public Representative enigmatically assumes that Standard Mail (including Letters and Nonprofit) will become more elastic than Commercial Enhance Carrier Route over a span of five to six years.[29] Simply put, this projection is not empirically founded and is not consistent with the long history of demand elasticities for Standard Mail. Accordingly, the Postal Service does not believe that the Public Representative's model results are any more realistic than, or in any way superior to, the results generated by the Christensen Models.

4. Nevertheless, the Public Representative offers one useful, though relatively minor, improvement to the Christensen Models.

The Public Representative describes what he calls "methodological inaccuracies" in the Christensen Models.[30] Specifically, the Public Representative states that the Christensen Models' cumulative contribution is computed in nominal terms, and that the model applies price (but not cost) inflation in the first year.[31] The Postal Service agrees that expressing the results in constant terms would be an improvement. Valpak similarly criticizes the models for failing to express results in discounted terms.[32] Of course, discounting would require additional assumptions regarding a discount rate applicable to a public sector institution. A possible rate would be the cost of funds for the U.S. Treasury, which is currently zero or negative (in inflation-adjusted terms) for many maturities. Thus, as a practical matter, the Postal Service believes this omission

---

[28] *Id*. at 35.
[29] *Id*.
[30] PR Comments, at 38.
[31] *Id*.
[32] Valpak Comments, at 69.

is not likely to be of much consequence.

Insofar as the contribution by year could be readily obtained from the filed models, interested parties could easily compute deflated results, much as the Public Representative computed cumulative contributions in FY 2012 dollars. The lack of a cost inflation adjustment by Christensen in the first year was an apparent oversight. However, since it merely serves to shift the initial attributable cost level for both scenarios, the effects of the omission should be minor. The Postal Service expects that future revisions of the Christensen Models (to the extent they are needed) will incorporate these changes.

The Public Representative is not correct, however, in claiming that the model "focuses on the trade-off between Flats and Letters and ignores 35 percent of other Standard Mail."[33] The Christensen Models clearly include a trade-off between Flats and All Other Standard Mail, which the Public Representative's own discussion of the models recognizes.[34]

5. The Valpak Standard Mail contribution model is not a useful tool for determining optimal Standard Mail prices.

Valpak contributes to the discussion by presenting a model that not only purports to maximize contribution,[35] but is also claimed to be "significantly more sophisticated" than the Christensen Models.[36] As the Postal Service and Christensen Associates have stated repeatedly, the whole premise behind the Postal Service's cautionary arguments against increasing Standard Mail Flats prices too much is that Flats volume has been,

[33] PR Comments, at 39.
[34] *Id*. at 32-34.
[35] Valpak Comments, at 94-104.
[36] Valpak Comments, at 77.

and foreseeably will be, in autonomous volume decline.[37] Incorporating this feature, along with other scenario dynamics, is a major advancement in the Christensen Models. The Valpak model, however, omits this and other factors, and asserts that a one-period static model is sufficient to determine contribution-maximizing Standard Mail pricing.[38]

Apparently aware of the limitations associated with a single-year contribution analysis, Valpak argues that long-run contribution maximization is the sum of short-run (single-year) profit maximizations:

> "Within each class of mail, maximizing contribution from one year to the next usually will maximize longer-run contribution, provided that no significant inter-temporal interdependencies exist."[39]

Beyond the confusion over what is meant by "usually" and "significant," Valpak proceeds to dismiss its own "inter-temporal interdependencies" caveat on the grounds that "it has not been demonstrated" that the Postal Service is subject to such interdependencies.[40] The Postal Service is unaware of the basis for this claim. Without additional proof from Valpak, the Postal Service continues to believe that long-run contribution maximization can materially differ from the sum of short-run contribution-maximizing solutions.

Valpak's model is also dependent on an assumption that the aggregate price elasticities from the Postal Service's market-dominant demand equations are applicable to each Standard Mail product within the aggregate. While this assumption could be true, it is also possible (if not generally true) that particular products' elasticities will differ from the aggregate elasticity. As the Postal Service noted in its January 2013

---

[37] Christensen Scenario Analysis, at 1.
[38] Valpak Comments, at 93.
[39] *Id*.
[40] *Id*.

demand model filing, Standard Mail demand models that are better aligned with current product definitions are an active area of research.[41] Until refined Standard Mail models produce sufficiently reliable results, it is not safe to simply assume that the current elasticities can be applied to each of those products individually. The Postal Service knows of no theoretical or market basis for such a conclusion. In fact, the elasticities may very well differ greatly for Letters and Flats, which tend to serve entirely different markets (advertisements and solicitations vs. merchandise catalogs). Even if Valpak's elasticity assumptions were true, the Postal Service observes that it would not be true in general that the elasticity would be the only relevant demand parameter in a properly specified contribution-maximization analysis.

Finally, the Valpak model's "optimum" pricing scenario does not maximize contribution in dynamic scenarios such as those in the Christensen Models. The claimed "optimum" increase for flats is 13.754 percent.[42] This increase is similar in magnitude to the 13.3 percent Year 1 price increase in the Christensen "V1" models, which are based on a Valpak R2013-1 proposal.[43] Significantly, the additional Flats price increase can be shown to even *lower* contribution from Scenario 2 of the "V1a" and "V1b" models than the 13.3 percent increase originally modeled.[44] Clearly, the Valpak "optimum" is not robust to the presence of "inter-temporal dependencies" of the sort examined in the Christensen Models.

At the very least, the above demonstrates that ignoring volume dynamics and

---

[41] Demand Analyses FY 2012 – Market Dominant, Periodic Report (undocketed) (Jan. 22, 2013).
[42] Valpak Comments, at 101.
[43] Christensen Scenario Analysis, at 3.
[44] Replacing the Scenario 2 Year 1 premium in the Christensen "V1a" and "V1b" models with 10.853 percent yields a total Year 1 price increase of 13.754 percent. The lost contribution in nominal terms, relative to Scenario 1, is $270 million in the "V1a" model and $327 million in the "V2b" model, compared to $257 million and $313 million in the models as filed in USPS-FY12-43.

other “inter-temporal dependencies” in the Valpak model is not without consequences. While the Postal Service appreciates the work that Valpak must have put into its alternative model, the model is plainly too simple and incomplete to be a reliable guide for actual business decisions.

III. Workshare Discounts

A. Application of the Section 3622(e)(2)(D) Exception

The Public Representative recommends that the Commission not accept the Postal Service’s reliance on the section 3622(e)(2)(D) exception in this docket, because, in his view, the exception is available only where the Postal Service identifies a specific operation that would be impeded by a change to the discount.[45] This is a strange reading of the provision. Under a plain reading, the language “the efficient operation of the Postal Service” is, first and foremost, general. While it could also be read specifically, to apply to specific operations, that cannot negate its general application to the efficient operation of the Postal Service as a whole. If Congress intended otherwise, it would have stated “an operation” or “operations,” or used other similar language indicating the specific rather than the general.

In this docket, the Postal Service has relied on section 3622(e)(2)(D) without citing a specific operation for only two passthroughs: First-Class Mail Mixed AADC Automation Letters and 5-Digit Automation Flats. The cost avoidance for Mixed AADC Automation Letters has fluctuated year-to-year from 3.4 cents to 5.9 cents to 4.5 cents, and the cost avoidance for 5-Digit Automation Flats has fluctuated year-to-year from 17.4 cents to 18.8 cents to 14.3 cents.[46] It should be obvious that chasing these cost

[45] PR Comments, at 41.
[46] ACR, at 10-13.

avoidances in pricing the discounts would be inefficient (and, moreover, irrational). The mixed price signals would cause large year-to-year changes in the amounts of volume sorted to the presort levels associated with the discounts and could possibly even drive portions of the presort market out of business, thus harming the Postal Service in the long run. Section 3622(e)(2)(d) clearly applies.

B. Forecasting of Cost Avoidances

The Public Representative also recommends that the Commission require the Postal Service to forecast cost avoidances and set workshare discounts prospectively to match the forecasts. While the Public Representative never elucidates what he means by a forecast, his Charts 5 and 6 indicate that his forecast would be a linear regression or a moving average, or some other calculation, based upon the previous five years of cost avoidances. If that is what he is advocating, he has brought no evidence that using such a forecast would be any better than using the latest available cost avoidance. Indeed, consider that, of the three cost avoidances presented in Charts 5 and 6, one appears stable only after "simply" (as the Public Representative puts it) removing 2011 as an outlier. Outliers can be identified only retrospectively, often only many years later. If, for example, the Postal Service were making a forecast immediately after the close of 2011, how would it determine whether the 2011 cost avoidance was an outlier or a presage of things to come?

On the other hand, if the Public Representative is advocating a forecast on the order of what the Postal Service produced in general rate cases prior to enactment of the PAEA, then such a task would be far too imprecise for cost avoidances that are measured in the tenths of a cent. To put this task in perspective, the Postal Service would first have to forecast the overall costs that appear on the general ledger, based on multiple variables, such as inflation, wage increases, etc.; next, it would have to attribute those costs by product; then, it would have to forecast mailflow model inputs such as productivities, reject rates, use of equipment, etc. And, whereas in pre-PAEA rate cases there was a large margin of error that made some imprecision and errors in forecasting acceptable, forecasting cost avoidances down to the tenth of a cent would leave virtually no margin of error. Any error or fluctuation at any step of the process would lead to an incorrectly forecasted cost avoidance. And that is to say nothing of the burden of such an exercise. A far more sensible and practical approach is to have the Postal Service adjust the workshare discounts, during each annual rate adjustment, based on the latest available cost avoidances.

C. Variance of Nonprofit Discounts from Commercial Discounts

In Order No. 1573, Docket No. R2013-1, the Commission approved Standard Mail nonprofit workshare discounts that differed from their corresponding commercial workshare discounts.[47] It stated therein:

> The Postal Service correctly points out that the *National Easter Seal Society* case does not forbid a differential between discounts, but it requires a reasonable justification for the disparity. Here, it justifies the differential with an assertion that equalizing the Nonprofit presort discounts with the Commercial presort discounts without setting the Nonprofit base rates higher would be neither more efficient nor preferable from a policy perspective. The Commission finds that the Postal Service may use its pricing flexibility in setting workshare discounts for commercial and nonprofit Standard Mail, and that in the circumstances of this rate adjustment, its justification is reasonable.
>
> In future rate adjustment proceedings, the Postal Service must continue to identify in its workpapers when nonprofit workshare discounts

[47] Order No. 1573, Order on Standard Mail Rate Adjustments and Related Mail Classification Changes, Docket No. R2013-1 (Dec. 11, 2012).

> differ from their commercial counterparts and to justify deviations from the discounts applied to commercial mail."[48]

In its comments, the Alliance of Nonprofit Mailers (ANM) tries to challenge the above determination, even though it is well outside the scope of the instant docket, by speculating that:

> It is possible that the Commission's ultimate decision to allow implementation of the nonprofit discounts at issue in Docket No. R2013-1 reflected nothing more than a judgment that the discrimination issue was not big or extraordinary enough to warrant delaying the infusion of new revenue that the Postal Service sought in that case, and that the Commission was putting off the issue for resolution in a later case such as this docket.[49]

ANM's purported hook for bringing the Docket No. R2013-1 workshare discounts into this docket is clearly unfounded. First, nowhere in Order No. 1573 does the Commission even hint that its determination with regard to the Standard Mail nonprofit workshare discounts is anything other than final. The Postal Service's need for an immediate infusion of revenue is entirely absent from the text.

And second, the Commission's mandate with respect to rates in the instant docket is plain: it is to determine "whether any rates or fees in effect during such year (for products individually or collectively) were not in compliance."[50] The Docket No. R2013-1 workshare discounts were not in effect in FY 2012, so they are not under review here.

Perhaps anticipating its failure to slip the Docket No. R2013-1 discounts into this docket, ANM also asks the Commission to find any nonprofit discounts that were in effect in FY 2012, and that differed from the corresponding commercial discounts, to be

---

[48] *Id.* at 9.
[49] ANM Comments, at 2.
[50] 39 U.S.C. § 3653.

not in compliance with the statute. While rates in effect in FY 2012 are within the scope of this docket, it would be arbitrary and capricious for the Commission to find out of compliance rates that the Commission itself approved nine months earlier, absent new information or a change in circumstance. For example, the Commission may approve certain rates in a rate case of general applicability, but later find that, in light of new cost coverage information, the previously approved rates are not in compliance. That is not the case here. ANM objects to certain nonprofit discounts simply because they vary from the corresponding commercial discounts. The Commission was aware of the variances when it approved the discounts in Docket No. R2012-3, and nothing has changed since then.[51] Therefore, to disapprove of them now would be arbitrary and capricious.

IV. Performance Plans and Strategic Initiatives

The Public Representative provides background information regarding the relevant statutory requirements related to the Postal Service's Comprehensive Statement on Postal Operations ("Comprehensive Statement").[52] The Postal Service notes, however, that in addition to providing the information required by 39 U.S.C. §§ 2803 and 2804, namely the Annual Performance Report and Annual Performance Plan, the Comprehensive Statement is also intended to "provide stakeholders with information on how Postal initiatives and programs are setting the stage for future improvements."[53] The Postal Service has designed the Comprehensive Statement to satisfy the relevant

---

[51] Indeed, ANM itself did not object to the variances in Docket No. R2012-3. To paper over this fact, ANM says that, in Docket No. R2013-1, the Postal Service "admitted" to the Docket No. R2012-3 and other prior variances, as if they were secrets that only now emerged. Rather, they were on the record, and year after year, ANM never raised any objection to them.
[52] PR Comments, at 8-9.
[53] USPS-FY12-17 at 27.

statutory requirements, as well as to assist a broader stakeholder audience in evaluating the performance of the Postal Service.[54] As such, portions of the Comprehensive Statement are more narrative and descriptive in nature, rather than quantitative. Many of the concerns raised by the Public Representative relate to these more narrative and descriptive portions of the Comprehensive Statement. Many of the other concerns raised by the Public Representative have been addressed in the Postal Service's responses to Chairman's Information Request No. 6.[55]

More specifically, the Public Representative asserts that the Postal Service has not met the requirements of 39 U.S.C. §§ 2803(a) and 2804(d)(3).[56] As explained in previous years, and in the revised responses to Chairman's Information Request No. 6, Questions 1 and 3, the organization-wide goals provided in the Annual Performance Report and Annual Performance Plan cover the Postal Service's program activities and provide the required metrics.[57] Moreover, in addition to using Single-Piece First-Class Mail to represent the Postal Service's service goal, the Annual Performance Report and Annual Performance Plan also provides a link to the publicly available performance reports for all Market Dominant Products (rather than reporting the information twice).[58] Finally, the responses to Chairman's Information Request No. 6 provide clarifying information, as well as related information that the Postal Service does not believe is required in the Annual Performance Report and Annual Performance Plan, that should

---

[54] *Id.*
[55] Responses of the United States Postal Service to Chairman's Information Request No. 6, Docket No. ACR 2012 (Feb. 7, 2013) ("Responses to ChIR No. 6"); Revised Responses of the United States Postal Service to Questions 1-3 and 6 of Chairman's Information Request No. 6 [ERRATA], Docket No. ACR 2012 (Feb. 13, 2013) ("Revised Responses to ChIR No. 6").
[56] PR Comments at 9-15.
[57] Revised Responses to ChIR No. 6 at Question 1; USPS-FY12-17 at 34.
[58] USPS-FY12-17 at 35.

sufficiently address many of the Public Representative's additional concerns.[59]

The Public Representative also finds the strategic initiatives presented in the Comprehensive Statement on Postal Operations to be insufficient.[60] The Public Representative states that it is difficult to determine "which are strategic initiatives, and to which performance goals they relate."[61] The strategic initiatives are clearly presented on page 38 of the FY 2012 Comprehensive Statement.[62] Additionally, as the Postal Service explained on page 38 of the FY 2012 Comprehensive Statement, and its response to Question 7 of Chairman's Information Request No. 6, "[t]he portfolio [of strategic change initiatives] is dynamic and will change as priorities and resources require, and as programs are completed or adjusted based on external events."[63] Further, the representation of the strategic change initiatives in the FY 2012 Comprehensive Statement differs from the representation of the strategic initiatives in previous years to better reflect the Postal Service's current strategic goals.[64] However, the content covered by the identified strategic change initiatives is substantially similar to previous years, as shown in the chart included in response to Question 7 of ChIR No. 6.[65]

Moreover, the portfolio of strategic change initiatives is broad, inter-related,

---

[59] *See, e.g.*, PR Comments at 19 (stating that the Postal Service "has scrapped mention of most all of its previous strategic initiatives"). As clarifying information, the Postal Service provided a chart explaining how the content covered by the identified strategic change initiatives is substantially similar to previous years in its Responses to ChIR No. 6 at Question 7; *see also*, PR Comments at 12 (identifying that the Postal Service did not include performance goals for Express Mail, Priority Mail, and Parcel Select). This information is not included in the Comprehensive Statement, however, the Postal Service, provided the information in its Responses to ChIR No. 6 at Question 9.
[60] *See generally*, PR Comments at 15-20.
[61] *Id.* at 16.
[62] USPS-FY12-17 at 38.
[63] Responses to ChIR No. 6 at Question 7.
[64] *Id.*
[65] *Id.*

complex and dynamic.[66] The inter-related nature of the strategic change initiatives means that more than one initiative may relate to more than one performance goal. However, a relationship does exist between the strategic change initiatives and the performance goals. For example, the strategic initiatives identified as "Workplace and Workforce Initiatives" relate to the performance goal of improving the workplace and the workforce ("Workplace"). Additionally, many of the strategic change initiatives identified as "Revenue Generation Programs" and "Infrastructure and Operations Optimization" relate to the one or both of the performance goals of generating net income ("Financial") and "Providing High Quality Service" ("Service" and "Customer Experience").

Finally, the Public Representative states that "there are no indicators with the initiatives to measure the progress in meeting targets toward accomplishing the performance goals."[67] This observation appears to be imposing the requirements of 39 U.S.C. §§ 2803 and 2804 on the Postal Service's presentation of its strategic initiatives. While the strategic initiatives are designed to assist the Postal Service in achieving its organization-wide goals, they are provided as part of a broader strategic plan to achieve those goals, rather than as part of the Postal Service's Annual Performance Report and Annual Performance Plan.[68] As such, the requirements of 39 U.S.C. §§ 2803 and 2804 should not apply to the strategic initiatives. Instead, they apply to the Annual Performance Report and Annual Performance Plan. Despite the Public Representative's comments to the contrary, the FY 2012 Comprehensive Statement provides substantially more detail regarding the Postal Service's performance goals,

[66] USPS-FY12-17 at 39.
[67] PR Comments at 16.
[68] *See, e.g.*, 39 U.S.C. § 2802 (requiring that the Postal Service provide a strategic plan, and that the strategic plan and the performance plan required under section 2803 are "related" and "consistent").

performance indicators, and strategic initiatives than the 2011 Comprehensive Statement.

V. Customer Access

The Postal Service provided wait time in line data in USPS-FY12-33. Separately, the Postal Service provided its Customer Experience Measurement (CEM) survey instrument and results in USPS-FY12-38. One question in the CEM survey asks customers about their wait time in line. By examining the results for this question, the Public Representative concludes that the wait time in line data provided in USPS-FY12-33 is wrong.

The Public Representative's conclusion is, while mistaken, understandable, as the Postal Service has not previously explained its method for calculating wait times in line. The Postal Service calculates the wait times in line reported in USPS-FY12-33 based on a mystery shopper program covering 8,500 postal locations. Each location is visited at least once and up to ten times, and, during each visit, the participant's exact wait time in line is recorded. The times reported in USPS-FY12-33 are an average of those records.

Separately, as part of the CEM survey, customers are asked, "[d]uring your most recent visit to the Post Office, how long did you wait in line for a clerk," and they are given six ranges of time (less than one minute, one to three minutes, four to five minutes, six to ten minutes, eleven to fifteen minutes, and sixteen or more minutes) to choose from, in addition to a "don't know / don't recall" option. The responses to this question are useful for gauging customers' impressions of their visits to post offices, but they are not used to calculate wait time in line, as an averaging of individuals' recollections from their most recent post office visit (without regard to how long ago it was) would not lead to a reliable wait time in line estimate. Nonetheless, as the Postal Service improves wait times in line, it hopes that customers will notice, and that the responses to this question in the CEM survey will improve.

The Public Representative also questions the scientific nature of the CEM survey, stating that the response rates appear to be low. The Postal Service has contracted with Maritz Research, a leading customer experience research firm, to conduct the CEM survey. Maritz Research ensures that the CEM survey meets its standards for a scientific survey. With respect to the response rates in particular, Maritz Research has informed the Postal Service that, in its view, the response rates are reasonable given the sample and mailing methodology.

The Public Representative urges the Commission to require the Postal Service to add seven questions concerning wait time in line to the CEM survey. While such additions may be useful in an ideal world, the Public Representative ignores the significant cost and other consequences of making these changes. The survey already has twenty substantive questions, in addition to eight questions about the respondent. Adding seven more substantive questions would make the survey more costly to administer and would almost certainly reduce the response rate.[69]

VI. Conclusion

The Postal Service appreciates the opportunity to comment on the issues raised by the parties in their initial comments.

---

[69] In addition, the new line of questioning would be confusing – the customer would first be asked to recall the precise two hour window within which he or she last visited the post office (regardless of how long ago the visit was), and only then would the customer choose one of the six time intervals. Relying on individuals to remember such details with precision from an indeterminate point in the past is not advisable.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing & Product Support

Caroline R. Brownlie

Nabeel R. Cheema

John F. Rosato

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1137
(202) 268-7178; Fax -5402
February 15, 2013